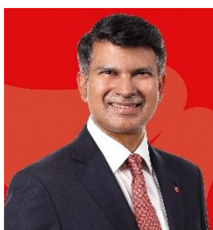
Economics & Strategy Research

# DBS Monthly

# Trade war, oil, and the Fed; 1-2-3 punches

Group Research 28 September 2018



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- ***Economics:*** *Underlying activities across the region are strong, although some impact of trade wars on actual data are only a few months away. Trade wars may be dominating the headlines, but it is increasingly seen as a China-US matter. Causing more stress is the rising US policy rate and tightening of liquidity*
- ***China:*** *Sino-US trade war is now a reality, but the stakes are in fact greater. We believe that the objective of the US is to contain the rise of China in multiple dimensions.*
- ***FX****: We see a steadfastly buoyant USD in 4Q; expect MAS to further steepen the NEER slope in October.*
- ***Rates:*** *More Fed hikes are coming, compelling considerable monetary policy tightening in many Asian emerging market economies.*
- ***Equities****: In the aftermath of a sharp sell-off this year, we see near term opportunities with Hong Kong*



Refer to important disclosures at the end of this report.

## Economics: Trade war, oil, and Fed; 1-2-3 punches

We begin this month's round-up by taking stock of regional growth momentum. Our GDP Nowcast models for China, India, and Singapore, updated with data available through this week, show fairly robust performances:

- **China slowed to 6.4% in 3Q, as per our real estimates of real GDP growth**, but the slowdown is gradual and shows no alarming trends. If exports slow in 4Q or early next year, growth will likely head toward 6%, although the chance of a credit-driven policy stimulus will rise considerably in that case.

- **India is unlikely to post another stellar 8%+ outturn in July-September, but a 7%+ print looks likely as per our model**. Key sources of slowdown are trade and auto sales.

- **As for Singapore, after a few very strong quarters, growth likely slowed to 3% in 3Q** on the back of some softening in industrial production. Trade war related developments are yet to affect the dataflow, although it is possible that the strength of the cycle may appear to be exaggerated due to some front-loading of orders ahead of tariff activation.

Emerging markets have had a torrid time this year, but we are afraid that there no respite in sight. In past decades, a US monetary policy tightening cycle alone has been sufficient to cause considerable stress among hard currency borrowers, but this time there additional complicating factors in place.

First, trade wars have deepened, but at the same time are being seen primarily as a China-US skirmish over a broad range of issues, of which tariffs are just one part. In our travels through China, we saw companies considering a combination of margin squeeze, productivity enhancement, and re-routing of trade to deal with impending tariffs in the near term. 10% tariffs seem to not have led to a dramatic worsening of sentiments, but that could well follow if tariffs jump to 25% at some point next year. What was troubling was the growing sense that there are no short-term resolutions to the China-US conflict, and matters such as South China Sea, North Korea, Iran, Belt-and-Road, and technology transfer will be sources of protracted back-on-forth between the world's two largest economies.

Second issue is oil, which is up about 25% this year, and the risk is once Iran sanctions are put in place and supply from Saudi Arabia and Iraq fall short, prices could jump another 10-20% in 2019. This is a major sense of headache for commodity importing economies (including Indonesia, which produces crude but imports refined oil). Here in Asia, governments are making laudable attempts to slow down demand by passing on the higher price or fiscal adjustment, as well as monetary policy tightening. But given the relative inelasticity of energy import demand, the risk is that the current account deficit for a number of economies will remain high next year. This bodes ill for inflation, currency stability, capital flows, and the overall economic outlook

Third and perhaps most critically is the cost and availability of USD funds. There is no sight of the US Federal Reserve refraining from rate hikes, hence dollar funding will become steadily more expensive through next year. The US Fed has signalled one more hike this year, and its dot plots suggest around 3 additional hikes in 2019.

**We think the risk of the frequency and magnitude of Fed rate hikes is rising**. US inflation is being driven up by a confluence of cyclical factors (tariffs, labour market tightness, oil, fiscal slippage, and expectations). Against this background, the risk of an upside inflation surprise is much greater than a downward surprise, in our view. The fact that US Fed chairman will host press conferences after every meeting from now on (instead of one per quarter) itself is a signal that the Fed is adopting greater flexibility to explain its forthcoming moves.

Regardless of three or four Fed rate hikes next year, the outlook is clear; USD borrowers will find it progressively more expensive to issue or refinance debt next year. This alone can cause distress among corporates, households, and financial institutions in emerging markets next year, but when it is combined with the pain from higher oil prices and uncertainty from trade wars, a very challenging period appears on the horizon.

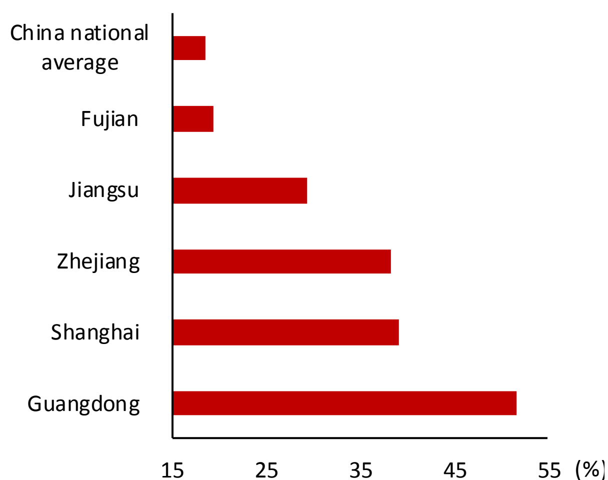
We devote some thought to China in the next section, both in terms of the economic and political cost of trade wars, and what it means for policy.

*Taimur Baig*

## China

Sino-US trade war is now a reality, but the stakes are in fact greater. We believe that the objective of the US is to contain the rise of China in multiple dimensions. The tariff game is likely to be one of the many forthcoming assaults beyond the economic realms.

The imposition of 10% tariff over USD200bn of Chinese exports to the US took effect on September 24, impact of which is likely to be small in the short-term due to front-running of imports to avoid tariffs. Notable slowdown will be apparent in 1Q19 as manufacturers start rerouting trade or begin relocating production bases to ASEAN, India and Eastern Europe. Although export to GDP ratio has fallen from the historical high of 35% in 2006 to 19% as of end 2017, export concentration in Southern China remains very high. For example, exports as a share of GDP in Guangdong province is over 50%, 39% for Shanghai, 38% for Zhejiang, and 29% for Jiangsu (Chart 1). Multinational corporations can weather the storm much easier than small to medium sized exporters. If this is a protracted war, the potential economic damage to them over time cannot be underestimated.

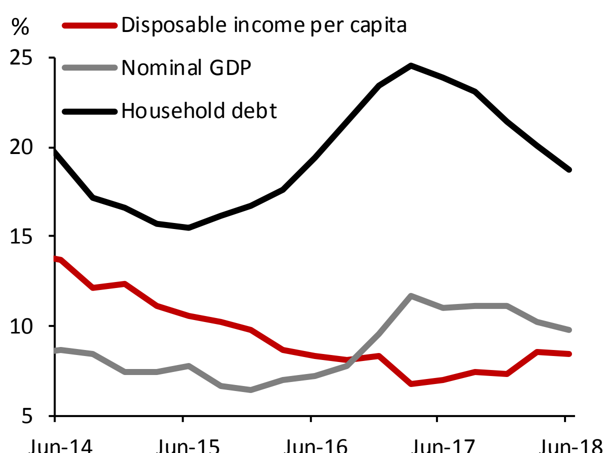



Sources: Bloomberg, CEIC, PBOC, and DBS

As trade vulnerabilities rise, there will be more burden on domestic demand to keep growth high. While China's domestic demand is massive, its momentum is reliant on credit. Indeed, household debts have surged in recent years on the back of mortgage lending.

In contrast, growth of disposable income has been gradually decelerating (Chart 2), coupled with the rising costs of rental, health, and education. Indeed, it has been growing slower than nominal GDP since 2Q16.

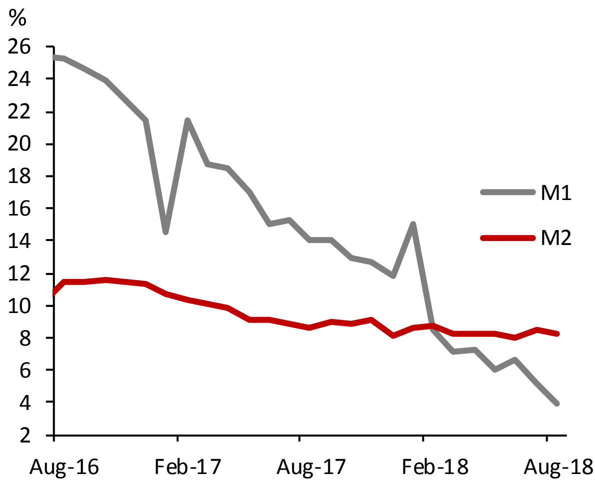
The deleveraging campaign aimed at containing the rising debt-to-GDP ratio almost 240% has already hurt fixed asset investment growth. It fell from the post-Global Financial Crisis high of 33.6% to an all-time low of only 5.3% as of August this year. Infrastructure investment dropped into negative territory for two consecutive months. Initial investment approvals - an indicator of future activity - have declined sharply.




Sources: Bloomberg, CEIC, PBOC, and DBS

Trade wars make the task of economic recalibration, already a major undertaking, more complicated. If China had not allowed the CNY to depreciate quickly in July/August by almost 10% from its year-high in April, the Trump Administration might not have escalated the threat of tariff rate to 25% from 10%. At this juncture, the best policy response from Beijing is to keep the currency stable by further tightening capital controls to curtail potential capital flights on the back of rising US rates. The PBOC has indeed reintroduced the countercyclical factor and the reserve requirement on FX forward transaction in August. Capital flow through the free trade accounting unit was also tightened. Under this scenario, exporters will be negatively impacted. And the progress of CNY internationalization will slow accordingly.

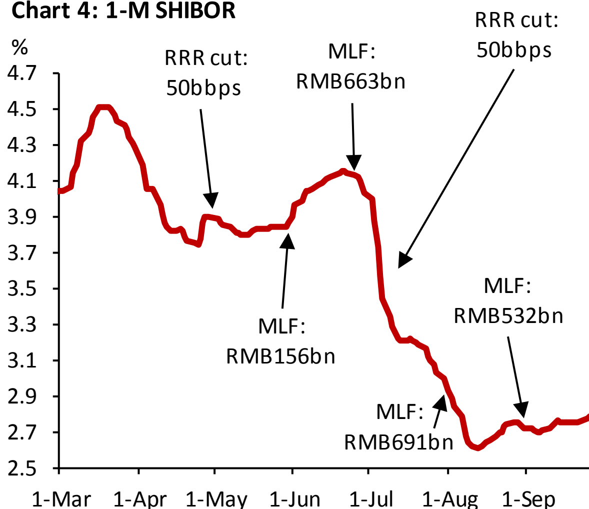
**Chart 3: M1 and M2 YOY growth**




Sources: Bloomberg, CEIC, PBOC, and DBS

The recent collapse in M1 growth points to continued deterioration of corporate and/or local government cash flow, which hinders an immediate pick-up in investment demand (Chart 3). Relaxation of monetary policy may arrest the deceleration of economic growth a bit only due to high leverage nationwide. The central bank will cut reserve requirement ratio more (they cut three times so far this year). Further injection of liquidity will keep interbank rates low (Chart 4). That may save the A-share markets for some time. Even the property market may respond positively to it. But this contradicts with the goal of deflating property prices, which may be pursued through macro prudential measures.

**Chart 4: 1-M SHIBOR**




Sources: Bloomberg, CEIC, PBOC, and DBS

The burden of buttressing growth thus rests on fiscal policy. On the surface, it makes sense. Headline fiscal deficit of the central government is only around 3-4% of GDP, suggesting plenty of headroom. But this implicitly assumes the willingness of banks to support debt-ridden local governments. The days of local government racing to achieve ever higher GDP by infrastructure spending are gone due to the ongoing anti-corruption campaign. It will take some time to iron out these obstacles at the operation level for expansionary fiscal policy to effect. Meanwhile, the country's once-robust private sector is weakening, with industrial profit growth falling to 9.2% in August 18 from as high as 27.7% in September 17. The potential hikes in effective social security contribution might further dampen corporate profitability.

The Sino-US trade war is likely to worsen further. Negative impact on trade and other economic parameters will only surface gradually over time. It is better for Beijing to maintain status quo on macro policies until mid-term election in the US is over. The repercussions of trade war will only be apparent in 1Q19. The magnitude of the damage is conditional on many political parameters for the remainder of this year. Should the Trump administration levy tariffs on the remainder of China exports by 25% on Jan 1st 2019, that will be the maximum stress point to force Beijing to have a policy response. Until then, there won't be any material impact on China headline numbers.

Seen from the positive light over the longer run, the Sino-US trade war is going to push China to spend more on research/development on semiconductor technologies. Policymakers may also speed up the design of policies to facilitate faster transition of an export-driven model to a services-based model in the Greater Bay Area. Last but not least is to reduce dependence on US as a major export market by diversifying to Russia, Africa and South America.

*Chris Leung*

## Rates: More Fed hikes coming

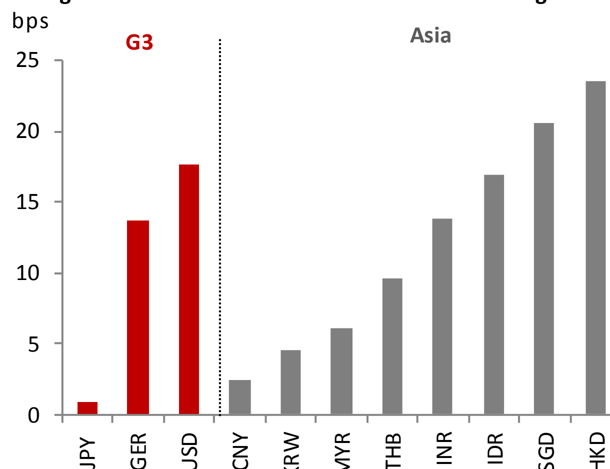
**The intensifying of US-China trade war did not deter USD interest rates from rising**. Since the start of the month, the entire UST curve (from the 2Y tenor onwards) level-shifted some 20bps higher. USD rates did not head much lower even as the US slaps an additional 10% tariffs on USD200bn worth of Chinese imports (prompting the Chinese to retaliate with tariffs on USD60bn of US imports). We have maintained that trade war is essentially noise to the US and there should be zero impact on the Fed's policy. Notably, economic momentum in the US is still firm with the Atlanta Fed and St Louis Fed Nowcast models both pointing to 3Q growth of 4.4%. Other high frequency indicators such as hourly wages, nonfarm payrolls, PMIs and inflation all point to economic strength.

It is perhaps unsurprising that the Fed delivered on its third rate hike for the year on 27th September (taking the Fed funds rate ceiling to 2.25%). Notably, the Fed no longer classifies the current monetary policy setting as "accommodative." While the neutral rate is debatable, firm US data provide plenty of ammunition for the Fed to continue hiking well into 2019. **The latest dot plot indicates one more hike in 2018, three in 2019 and one more in 2020, taking the Fed funds rate ceiling to 3.50%.** We are slightly more hawkish, projecting that 3.50% will be hit by end-2019.

**Performance for Asia rates is mixed.** There is an increasing sense that Asian government bonds are starting to look cheap after the selloff since the start of the year. Notably, across the economies we track, Indonesia government bonds are, by far, the worst performers. India, Hong Kong, Singapore and Thailand form the next cluster with yield increases in the 10Y tenor broadly similar to the US. Lastly, China, Korea and Malaysia have been the best performers within Asia.

With these in mind, the performances in September are quite different. **Singapore and Hong Kong rates are now the two worst performers. This should not come as a surprise as these rates tend to track US rates closely.** Instead, the focus should be on the fact that **Indonesia performed relatively well despite jitters in the early part of the month.** From the peak of 8.56% in early September, 10Y yields have since drifted down to 8.15%. With the government and the central bank taking active steps (embarking on its fifth hike this year on 27th September) to stem outflows and yields already at elevated levels, we maintain that Indonesia government bonds look attractive from a value perspective.

**Change in 10Y Government Bond Yields since end-August**




Source: Bloomberg

**The situation is dicier in India and the Philippines.** In both economies, government bond yields headed meaningfully higher over the past six weeks. In India, seasonal liquidity tightness is kicking in at a time when public sector banks have limited room to take on more bonds on their balance sheets. Short-term rates are also factoring in significant tightening (67bps) over the coming year. Clearly, INR rates are under stress, but a turnaround is not apparent just yet. For the Philippines, the 50bps hike (delivered on 27th September) is a necessary step to ensure financial market stability. However, it is not clear that the rate hike cycle is done. Even with the Overnight Repo Rate (OPR) at 4.50% (up by 150bps for the year), the real policy rate remains deep in negative territory as headline YoY CPI climbed to 6.4% in August. Tighter monetary policy is probably still needed to navigate the tougher global environment.

*Eugene Leow*

## FX: A steadfastly buoyant USD in 4Q

**The US Dollar Index (DXY) should be stronger in a higher 95-100 range.** The Fed's policy of gradually increasing rates will keep the USD attractive against its core DXY components – the Euro, the British pound and the Japanese yen. Unlike its peers, **US monetary policy ceased to be accommodative in September** when the Fed Funds Rate ceiling surpassed the official inflation target of 2%. Until US-China trade tensions start to hurt US's optimistic growth outlook, the Fed is likely to look past US President Trump's criticisms and keep increasing rates to above neutral, of more than 3% in the next couple of years. **Hence, interest rate differentials should keep widening in favour of the USD.** The Bank of Japan's pledge to keep rates extremely low for an extended period has helped to push USD/JPY towards our 113 target for 3Q, and later to 115 by end-year.

**The European Central Bank (ECB) is unlikely to be bullied by markets into bringing forward monetary policy normalization.** Apart from a dampened Eurozone growth outlook, the political risks posed by Italy's fiscal dilemma and UK's Brexit woes to the single market are no longer negligible. Finding and reaching middle ground have become Sisyphean tasks given the lack of unity within their governments, and the gulf between Rome/London and Brussels in resolving thorny and contentious issues. **Euro and the British pound** are more likely than not **to slide into lower ranges of 1.15-1.20 and 1.25-1.30 respectively**.

**A resolution to the US-China trade tensions is not on the horizon.** Beijing has rejected trade talks with Washington after Trump hit USD200bn worth of Chinese good into America with tariffs in September, four times more than the USD50bn imposed in July-August. Having accused China of meddling in the US mid-term elections, Trump could deliver a third round of tariffs on the remaining USD267bn Chinese goods into the November 6 polls. **However, the risk of further Chinese yuan depreciation comes**, not so much from the tariff war turning into a currency war, but **more from Beijing's policy responses to cushion the economy**. China's current account deficit in 1H18 reflected its transition from investment-led industrial production towards a consumption-based and services-oriented economy. While we see **USD/CNY in a 6.80-7.00 range**, the possibility of breaching the ceiling cannot be totally discounted.

The rapid deterioration in US-China trade relations have, nonetheless, dampened the 2019 outlook for export-led Asian economies. In South Korea, President Moon has resorted to fiscal spending (largest since the 2009 crisis) to support growth and his pledge to create jobs. The Bank of Korea has also backed away from more rate hikes. In all, the twin current account and fiscal surpluses that has kept the Korean won resilient (in a 1100-1135 range during the past 3-4 months) are likely to narrow. Hence, **the won should start to give back more of last year's appreciation back to 1150, and possibly more**.

**The Fed's gradual hike stance is likely to keep Asia's weakest currencies on gradual depreciation paths.** First and foremost, Asia's three weakest currencies – the Indian rupee (-12% ytd as of Sep 27); the Indonesian rupiah (-9%) and the Philippine peso (-8%) – should not be compared with their fragile emerging market peers, the Argentine peso (-52%) and the Turkish lira (-37%). These Asian countries do not suffer from a lack of policy credibility that led weaker growth, high inflation and wide current account and fiscal deficits. All three Asian countries have hiked interest rates to reduce exchange rate volatility from rising US rates; the Philippines more aggressively to rein in above-target inflation. India and Indonesia have taken measures to stabilize in their current account deficits. India is most vulnerable to a wider oil deficit from higher crude oil prices; Brent rose above USD80/barrel in September.

Lastly, **Singapore may normalize its SGD policy again** at the Monetary Authority of Singapore (MAS) policy review around mid-October. Both CPI and core inflation have returned into the upper half of their official forecast ranges. Full-year growth is also likely to come in at the stronger half of its official target range. While the SGD has depreciated against the USD, the SGD nominal effective exchange rate (NEER) has appreciated to the strongest quartile of its mildly appreciating policy band. Hence, there is scope for **MAS to slightly increase the gradient of the band by another 0.5%**. As demonstrated after the last tightening in April, USD/SGD will rise on a stronger USD against its trade-weighted basket of currencies. Based on our projections for the basket, **USD/SGD should end the year higher at 1.42.**

*Philip Wee*

## Equities: Near term opportunities with Hong Kong

The Hong Kong market was de-rated by trade war worries and a slew of regulatory reforms that are negative for some key sectors. We believe the market is oversold from all these concerns. The policy makers have many flexible policy tools to manage a slowdown, in our view.

**Fundamentals of economy remain sound**

DBS chief economist who returned from China's Beijing and Shenzhen has the following to say about the economy in his trip notes.

In Beijing, there is unease, but no panic yet about prevailing currency weakness, corporate debt overhang, slowing growth momentum, or tightening US monetary policy. Expectations are building for sizeable fiscal support. From the PBOC, more accommodation for liquidity is likely, but the thrust of policy action will come from fiscal. There has been a marked improvement in coordination among the key agencies dealing with fiscal, monetary, and exchange rate policy over the past three years, so a more coherent policy package should be expected.

In Shenzhen, to him, what was interesting to realise though was that many of China's trade-oriented companies have been amid a multi-year restructuring process, dating long before Donald Trump's election. Companies were not worried about market access in the West, and multinationals remain on the path to fast growth in China, tapping into ever strengthening domestic demand. Most companies believe that there is an extensive range of products where Chinese companies will continue to dominate, given their economies of scale, reliable and efficient processes, and a growing culture of innovation.

One of the reasons most of the companies he met seemed to be not particularly bothered is because (i) they are in the middle of a strong demand cycle and (ii) they see many other parts of the world are very much open for business. They believe that numerous products are made in China for which there are no viable global competitors, as China's economies of scale for manufacturing is simply unparalleled. And of course, for products where there is competition, Chinese companies compete fiercely, without fear of failure.

As for immediate response to tariffs that are in place or in the pipeline, company executives are resigned to seeing lower margins and financial losses and perhaps a decline in market share. Weak CNY is not necessarily a panacea, as companies import many components as well.

(See Economics & Strategy Weekly: "Notes from Shenzhen: Rerouting and restructuring", 14 September and "Notes from Beijing: v2.0 institutions dealing with v3.0 challenges", 7 September)

**Many policy options**

We believe policy stimulus to support the domestic economy and companies from the impact of tariffs will be made available. Measures such as reduction of corporate taxes, increase in export rebate taxes, and reduced operating costs, are some measures implemented or in the pipeline to help the economy alleviate some pain. Making credit available through liquidity injection and easing credit policies are also measures to boost domestic demand.

On the external side, we believe that measures to circumvent potential hostility from the rest of the world ex-US and to seek cooperation with them are important steps to take. We think China may co-operate more with Europe, Japan, and ASEAN countries, through Belt Road Initiatives (BRI), trade and investments, which all along are strategies for the long haul. For example, China may reduce import tax rebates for these countries.

**Market attention likely to focus on other election issues in the near term**

We believe the markets have almost come around with the tariff negotiation tactics with "no deal' expected in the near term. As it is now, with tariffs on half of China exports to US already announced, and nearing the mid-term elections in early November, we think the other half of the tariffs on exports will be beyond this year, and likely a long-drawn-out affair. We believe the market will turn towards the elections now that trade talks have come to a temporary halt, as China has expressed no interest to have any further talks with the US before the mid-term elections.

For example, it remains to be seen if the Republicans can still keep the House after the elections. Concerns on uncertainty over a split government, Trump's impeachment, US budget concerns, and USD weakening resurfacing cannot be ignored.

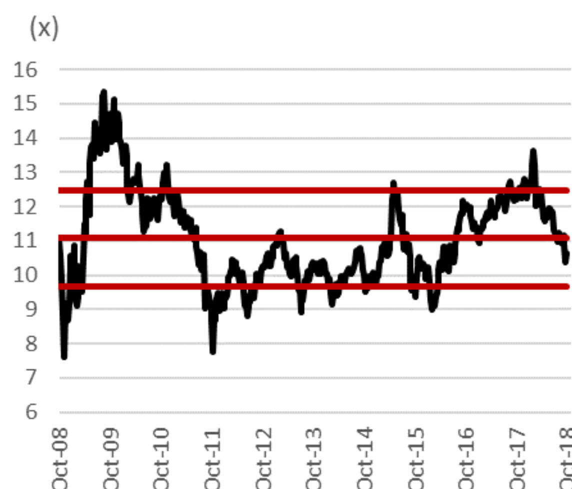
**China / Hong Kong markets remain supported**

Hang Seng Index is currently trading at average valuations of 11x, we believe there should be good support at current levels. Near-term support for the Hong Kong / China markets can come from the stabilisation of the CNY and economic data in the near term may not deteriorate too much. Earnings growth forecast trend for this year and next have only been downgraded marginally.

To be sure, out of the 1000 plus points drop in the Hang Seng Index during 3Q, 40% of the drop is accounted for by Tencent alone, while another 10% by HSBC. Obviously, these two stocks are not directly related to trade wars. While trade wars are making headlines, undercurrents of regulatory tightening, reforms and deleveraging have directly affected a lot of other sectors too. We estimated only 30% of the index drop are accounted for by trade war woes, primarily 2 stocks in the tech sector and 1 in the auto sector.

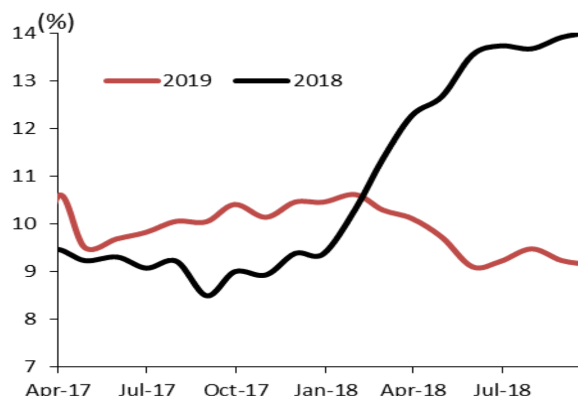
In Hong Kong / China, we look for good quality names in each sector as we believe a broad market recovery is likely in 4Q. We look for better sentiments from trade wars that could stabilise the market and recovery in some of the non-trade war related oversold names.

**Hang Seng Index 12-month fwd PER**




Source: IBES, Thomson Reuters, DBS Bank

**Hang Seng Index earnings growth forecast trend**




Source: IBES, Thomson Reuters, DBS Bank

*Joanne Goh*

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### Weekly wrap / Flash notes

- India's FY19 growth to moderate after a strong start
- Chart of the Week: EMFX weakness largely against USD; REER moves have been modest
- Indonesia's pain points
- Weekly: Notes from Beijing: v2.0 institutions dealing with v3.0 challenges
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- Taiwan: Growth outlook lowered on higher trade tensions
- Chart of the Week: Regional stock markets have corrected, but hardly cheap
- India: RBI has to square the circle
- Bank Indonesia remains on guard

## Growth, Inflation, Policy Rates & FX forecasts

| | GDP growth, % YoY | | | | CPI inflation, % YoY, ave | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018f | 2019f | 2016 | 2017 | 2018f | 2019f |
| **China** | 6.7 | 6.9 | 6.6 | 6.2 | 2.0 | 1.6 | 2.1 | 2.2 |
| **Hong Kong** | 2.0 | 3.8 | 3.3 | 2.9 | 2.4 | 1.7 | 2.0 | 2.5 |
| **India*** | 8.0 | 7.1 | 6.7 | 7.4 | 4.9 | 4.5 | 3.6 | 4.7 |
| **Indonesia** | 5.0 | 5.1 | 5.0 | 5.2 | 3.5 | 3.8 | 3.6 | 4.0 |
| **Malaysia** | 4.2 | 5.9 | 4.7 | 4.5 | 2.1 | 3.9 | 1.3 | 2.5 |
| **Philippines**** | 6.9 | 6.7 | 6.7 | 6.7 | 1.3 | 2.9 | 6.0 | 5.5 |
| **Singapore** | 2.0 | 3.6 | 3.0 | 2.7 | -0.5 | 0.6 | 0.7 | 1.8 |
| **South Korea** | 2.9 | 3.1 | 2.9 | 2.9 | 1.0 | 1.9 | 1.5 | 1.8 |
| **Taiwan** | 1.4 | 2.9 | 2.7 | 2.2 | 1.4 | 0.6 | 1.3 | 1.0 |
| **Thailand** | 3.2 | 3.9 | 4.0 | 4.0 | 0.2 | 0.7 | 1.5 | 1.5 |
| **Vietnam** | 6.2 | 6.8 | 6.4 | 6.6 | 2.7 | 3.5 | 3.6 | 3.8 |
| **Eurozone** | 1.8 | 2.5 | 2.2 | 2.2 | 0.2 | 1.5 | 1.4 | 1.4 |
| **Japan** | 0.9 | 1.7 | 1.1 | 0.9 | -0.1 | 0.5 | 0.8 | 1.0 |
| **United States***** | 1.5 | 2.3 | 3.0 | 2.5 | 1.3 | 2.1 | 2.5 | 2.0 |

* refers to year ending March ** new CPI series *** eop for CPI inflation

| | Policy interest rates, eop | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 |
| **China*** | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| **India** | 6.00 | 6.25 | 6.50 | 6.75 | 7.00 | 7.00 | 7.00 | 7.00 |
| **Indonesia** | 4.25 | 4.75 | 5.50 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| **Malaysia** | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| **Philippines** | 3.00 | 3.50 | 4.00 | 4.50 | 4.75 | 5.00 | 5.00 | 5.00 |
| **Singapore**** | 1.40 | 1.65 | 1.90 | 2.15 | 2.15 | 2.40 | 2.40 | 2.65 |
| **South Korea** | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.75 | 1.75 | 2.00 |
| **Taiwan** | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.50 |
| **Thailand** | 1.50 | 1.50 | 1.50 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 |
| **Vietnam***** | 6.25 | 6.25 | 6.25 | 6.25 | 6.50 | 6.50 | 6.75 | 6.75 |
| **Eurozone** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Japan** | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| **United States** | 1.75 | 2.00 | 2.25 | 2.50 | 2.75 | 3.00 | 3.25 | 3.50 |

* 1-yr lending rate; ** 3M SOR ; *** prime rate

| | Exchange rates, eop | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 18 | Q2 18 | Q3 18 | Q4 18 | Q1 19 | Q2 19 | Q3 19 | Q4 19 |
| **China** | 6.28 | 6.62 | 6.85 | 6.95 | 6.90 | 6.85 | 6.80 | 6.75 |
| **Hong Kong** | 7.85 | 7.85 | 7.85 | 7.85 | 7.84 | 7.83 | 7.82 | 7.81 |
| **India** | 65.2 | 68.5 | 72.5 | 73.0 | 73.5 | 74.0 | 74.5 | 75.0 |
| **Indonesia** | 13728 | 14330 | 15000 | 15050 | 15100 | 15150 | 15200 | 15250 |
| **Malaysia** | 3.86 | 4.04 | 4.16 | 4.24 | 4.22 | 4.20 | 4.18 | 4.16 |
| **Philippines** | 52.2 | 53.4 | 54.0 | 54.5 | 55.0 | 55.5 | 56.0 | 56.5 |
| **Singapore** | 1.31 | 1.36 | 1.38 | 1.42 | 1.41 | 1.40 | 1.39 | 1.38 |
| **South Korea** | 1064 | 1115 | 1150 | 1200 | 1190 | 1180 | 1170 | 1160 |
| **Thailand** | 31.2 | 33.0 | 33.0 | 34.0 | 33.8 | 33.6 | 33.4 | 33.2 |
| **Vietnam** | 22775 | 22938 | 23300 | 23350 | 23400 | 23450 | 23500 | 23550 |
| **Australia** | 0.77 | 0.74 | 0.70 | 0.68 | 0.69 | 0.70 | 0.71 | 0.72 |
| **Eurozone** | 1.23 | 1.17 | 1.14 | 1.12 | 1.13 | 1.14 | 1.15 | 1.16 |
| **Japan** | 106 | 111 | 112 | 115 | 114 | 113 | 112 | 111 |
| **United Kingdom** | 1.40 | 1.32 | 1.27 | 1.25 | 1.26 | 1.27 | 1.28 | 1.29 |

Australia, Eurozone and United Kingdom are direct quotes

## Rates forecasts

| | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1a | Q2a | Q3 | **Q4** | Q1 | Q2 | Q3 | **Q4** |
| US | 3m Libor | 2.31 | 2.34 | 2.50 | **2.75** | 3.00 | 3.25 | 3.50 | **3.75** |
| | 2Y | 2.27 | 2.53 | 2.75 | **2.90** | 3.05 | 3.20 | 3.35 | **3.50** |
| | 10Y | 2.74 | 2.86 | 3.10 | **3.20** | 3.30 | 3.40 | 3.50 | **3.50** |
| | 10Y-2Y | 47 | 33 | 35 | **30** | 25 | 20 | 15 | **0** |
| Japan | 3m Tibor | 0.07 | 0.07 | 0.05 | **0.05** | 0.05 | 0.05 | 0.05 | **0.05** |
| | 2Y | -0.13 | -0.12 | -0.11 | **-0.10** | -0.08 | -0.05 | -0.03 | **0.00** |
| | 10Y | 0.05 | 0.04 | 0.15 | **0.20** | 0.20 | 0.20 | 0.20 | **0.20** |
| | 10Y-2Y | 18 | 15 | 21 | **20** | 18 | 15 | 13 | **10** |
| Eurozone | 3m Euribor | -0.33 | -0.32 | -0.30 | **-0.30** | -0.30 | -0.20 | -0.10 | **0.00** |
| | 2Y | -0.60 | -0.67 | -0.20 | **-0.10** | 0.00 | 0.10 | 0.20 | **0.30** |
| | 10Y | 0.50 | 0.30 | 0.50 | **0.80** | 1.00 | 1.15 | 1.25 | **1.35** |
| | 10Y-2Y | 110 | 97 | 70 | **90** | 100 | 105 | 105 | **105** |
| Indonesia | 3m Jibor | 5.36 | 7.10 | 7.00 | **7.00** | 7.00 | 7.00 | 7.00 | **7.00** |
| | 2Y | 5.51 | 7.58 | 7.60 | **7.70** | 7.80 | 7.90 | 7.95 | **8.00** |
| | 10Y | 6.68 | 7.80 | 8.20 | **8.30** | 8.40 | 8.50 | 8.55 | **8.60** |
| | 10Y-2Y | 117 | 22 | 60 | **60** | 60 | 60 | 60 | **60** |
| Malaysia | 3m Klibor | 3.69 | 3.69 | 3.90 | **3.90** | 3.90 | 3.90 | 3.90 | **3.90** |
| | 3Y | 3.45 | 3.62 | 3.80 | **3.85** | 3.85 | 3.85 | 3.85 | **3.85** |
| | 10Y | 3.94 | 4.20 | 4.25 | **4.30** | 4.35 | 4.40 | 4.45 | **4.50** |
| | 10Y-3Y | 50 | 58 | 45 | **45** | 50 | 55 | 60 | **65** |
| Philippines | 3m PHP ref rate | 4.08 | 4.01 | 4.50 | **4.90** | 5.15 | 5.30 | 5.30 | **5.30** |
| | 2Y | 4.16 | 4.79 | 5.10 | **5.40** | 5.55 | 5.70 | 5.70 | **5.70** |
| | 10Y | 6.00 | 6.41 | 6.70 | **6.80** | 6.90 | 7.00 | 7.00 | **7.00** |
| | 10Y-2Y | 184 | 162 | 160 | **140** | 135 | 130 | 130 | **130** |
| Singapore | 3m Sibor | 1.45 | 1.52 | 1.85 | **2.05** | 2.25 | 2.45 | 2.65 | **2.85** |
| | 2Y | 1.79 | 1.96 | 2.10 | **2.20** | 2.30 | 2.40 | 2.50 | **2.60** |
| | 10Y | 2.29 | 2.53 | 2.60 | **2.70** | 2.80 | 2.85 | 2.90 | **2.90** |
| | 10Y-2Y | 50 | 57 | 50 | **50** | 50 | 45 | 40 | **30** |
| Thailand | 3m Bibor | 1.57 | 1.58 | 1.60 | **1.60** | 1.85 | 2.10 | 2.35 | **2.60** |
| | 2Y | 1.32 | 1.69 | 1.50 | **1.60** | 1.80 | 2.00 | 2.20 | **2.40** |
| | 10Y | 2.40 | 2.58 | 2.60 | **2.70** | 2.80 | 2.90 | 3.00 | **3.00** |
| | 10Y-2Y | 107 | 89 | 110 | **110** | 100 | 90 | 80 | **60** |
| China | 1 yr Lending rate | 4.35 | 4.35 | 4.35 | **4.35** | 4.35 | 4.35 | 4.35 | **4.35** |
| | 3Y | 3.56 | 3.32 | 3.20 | **3.30** | 3.40 | 3.50 | 3.60 | **3.70** |
| | 10Y | 3.75 | 3.48 | 3.65 | **3.70** | 3.75 | 3.80 | 3.85 | **3.90** |
| | 10Y-3Y | 19 | 16 | 45 | **40** | 35 | 30 | 25 | **20** |
| Hong Kong | 3m Hibor | 1.21 | 2.10 | 2.20 | **2.45** | 2.70 | 2.95 | 3.10 | **3.25** |
| | 2Y | 1.42 | 1.90 | 2.20 | **2.40** | 2.65 | 2.90 | 3.05 | **3.20** |
| | 10Y | 1.99 | 2.25 | 2.65 | **2.80** | 2.95 | 3.10 | 3.25 | **3.25** |
| | 10Y-2Y | 57 | 34 | 45 | **40** | 30 | 20 | 20 | **5** |
| Taiwan | 3m Taibor | 0.66 | 0.66 | 0.66 | **0.66** | 0.66 | 0.66 | 0.66 | **0.74** |
| | 2Y | 0.45 | 0.50 | 0.60 | **0.60** | 0.62 | 0.64 | 0.66 | **0.68** |
| | 10Y | 0.99 | 0.93 | 0.85 | **0.95** | 1.05 | 1.15 | 1.20 | **1.25** |
| | 10Y-2Y | 54 | 43 | 25 | **35** | 43 | 51 | 54 | **57** |
| Korea | 3m CD | 1.65 | 1.65 | 1.65 | **1.65** | 1.65 | 1.90 | 1.90 | **2.15** |
| | 3Y | 2.22 | 2.12 | 2.00 | **2.05** | 2.10 | 2.15 | 2.20 | **2.25** |
| | 10Y | 2.62 | 2.56 | 2.35 | **2.45** | 2.55 | 2.65 | 2.75 | **2.80** |
| | 10Y-3Y | 41 | 43 | 35 | **40** | 45 | 50 | 55 | **55** |
| India | 3m Mibor | 7.48 | 7.36 | 7.15 | **7.15** | 7.30 | 7.30 | 7.30 | **7.30** |
| | 2Y | 6.85 | 7.54 | 7.30 | **7.40** | 7.50 | 7.60 | 7.70 | **7.80** |
| | 10Y | 7.40 | 7.90 | 7.80 | **7.90** | 8.00 | 8.10 | 8.20 | **8.30** |
| | 10Y-2Y | 55 | 36 | 50 | **50** | 50 | 50 | 50 | **50** |

%, eop, govt bond yield for 2Y and 10Y, spread bps

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**Sources**: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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